

Message Text

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64

ACTION NEA-12

INFO OCT-01 ISO-00 AGR-20 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12

SPC-03 CIEP-02 LAB-06 SIL-01 OMB-01 SS-15 NSC-10 L-03

H-03 PA-03 PRS-01 USIA-15 DRC-01 /160 W

----- 089648

R 131130Z SEP 73

FM AMEMBASSY COLOMBO

TO SECSTATE WASHDC 15

C O N F I D E N T I A L COLOMBO 2297

E.O. 11652: GDS

TAGS: ECON, CE

SUBJ: POSSIBLE FAR-REACH

G GSL FOOD-PRICE CHANGES

REF: A) COLOMBO 2120 AND B) COLOMBO 2141

1. FOOD COMMISSIONER PATHMANATHAN TOLD AMB IN CONFIDENCE SEPT 11 THAT GSL CABINET COMMITTEE, CONSISTING OF KEY MINISTERS, HAD AGREED IN PRINCIPLE TO MAJOR CHANGES IN COUNTRYS FOOD-PRICE POLICIES TO BE PUT BEFORE FULL CABINET SOON. ACCORDING TO PATHMANATHAN, PROPOSALS WOULD INCLUDE:

A. FREE RICE RATION TO BE CUT FROM TWO TO ONE POUND PER WEEK.

B. GUARANTEED PRICE SCHEME (GPS) PURCHASE PRICE OF PADDY TO BE INCREASED FROM RS 18 TO RS 25 PER BUSHEL. (MAITHRIPALA SENANAYEKE EARLIER CONFIRMED PROPOSED GSP PRICE INCREASE INDEPENDENTLY TO AMBASSADOR.)

C. WHEAT FLOUR PRICE TO BE INCREASED FROM RS 0.46 TO RS 0.10 PER POUND.

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D. SUGAR ON RATION TO BE RAISED ABOVE PRESENT
RS 0.72 PER POUND PER MONTH.

2. PATHMANATHAN WAS REASONABLY CONFIDENT CABINET WOULD
ENDORSE THIS PACKAGE BARRING LAST-MINUTE OPPOSITION
FROM UNITED FRONT BACK-BENCHERS. IF APPROVED, PROPOSALS
WOULD GO INTO EFFECT ABOUT OCT 1.

3. EXPLAINING RATIONALE BEHIND CHANGES RE RICE,
PATHMANATHAN SAID COMBINATION OF DOMESTIC AND FOREIGN
RICE SHORTAGES AND SOARING INTERNATIONAL PRICES MADE IT
IMPERATIVE TO RELIEVE GOVT OF BURDEN OF PROVIDING
TWO POUNDS OF FREE RICE EACH WEEK. PROPOSED PRICE
INCREASE FOR PADDY DESIGNED PROVIDE INCENTIVES TO INDUCE
FARMERS TO SELL PADDY TO PADDY MARKETING BOARD (PMB). AT
PRESENT, VIRTUALLY NONE OF YALA CROP BEING SOLD TO PMB
BECAUSE FARMERS SELLING IT AT ENHANCED PRICES THROUGH
PRIVATE CHANNELS OR HOARDING IT IN ANTICIPATION EITHER OF
SHORTAGES OR INCREASE IN GPS PRICE.

4. RE WHEAT FLOUR, PATHMANATHAN SAID THAT BY ALMOST
DOUBLING RATION PRICE IT SHOULD BE POSSIBLE TO COVER
COST OF RECENT 110-THOUSAND TON PURCHASE FROM FRENCH
(90 THOUSAND TONS PURCHASED IN AUGUST (COLOMBO 2181) AND
ADDITIONAL 20 THOUSAND TON PURCHASE ANNOUNCED THIS WEEK).

5. IN REPLY AMB'S QUESTION, PATHMANATHAN
ACKNOWLEDGED IT MIGHT BE NECESSARY TO CONSIDER CONCURRENT
SALARY AND WAGE INCREASES, AND POSSIBLE TAX RELIEF, TO
CUSHION POLITICAL IMPACT OF FOOD PRICE INCREASES IN
URBAN AREAS; HOWEVER, HE DID NOT SEEM AWARE OF DETAILS
INVOLVED.

6. COMMENT: THERE HAVE BEEN NUMBER OF RECENT RUMORS
ABOUT VARIOUS GOVT PROPOSALS TO MEET LATEST
PHASE IN SRI LANKA'S ECONOMIC CRISIS (REFTEL B) BUT
PACKAGE OUTLINED BY PATHMANATHAN IS MOST SPECIFIC INFOR-
MATION ON HIGH-LEVEL THINKING WE HAVE RECEIVED TO DATE.
ACCORDING TO ANOTHER EMBASSY SOURCE, IN ADDITION TO HALVING
FREE FIRST MEASURE, PLAN OUTLINED PARA 1A INCLUDES
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ABOLITION SECOND MEASURE ON RATION CURRENTLY OFFERED AT
SUBSIDIZED PRICE. ALSO, GSL PREPARED TO ALLOW RICE TO
BE SOLD TO PRIVATE SECTOR ALTHOUGH GSL IS HOPEFUL NEW
RS .25 PURCHASE PRICE WILL ATTRACT BULK OF CROP TO PMB.
REMAINS TO BE SEEN WHETHER GSL IN FACT WILL IMPLEMENT SUCH
FAR-REACHING AND POLITICALLY SENSITIVE MEASURES OR WHETHER,
AS IN PAST, IT WILL BACK DOWN IN FACE OF BACK-BENCH
OPPOSITION OR THROUGH FEAR OF STRONG ADVERSE PUBLIC

REACTION.
VAN HOLLEN

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NNN

Message Attributes

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